receipts, or other means. Costs must have been capitalized in order to be considered a renovation or major improvement. It will also be assumed that the oldest beds were renovated. Renovations/ improvements exclude vehicles. In facilities with distinct parts, purchases not solely related to the certified beds for the classification being considered will be allocated between the certified beds for the classification being considered and the other beds in the facility. The allocation will be based on the number of beds in the classification being considered to total facility beds at year end, except for nursing facility beds converted from an existing hospital. In facilities where nursing facility beds were converted from hospitals, the beds will be aged at the actual construction date of the hospital beds up to thirty years. Also in facilities where nursing facility beds were converted from hospitals, renovations/

improvements will be allocated for each of the years considered in start-up as if the original number of converted beds were nursing facility beds in the year of construction. Non-Medicaid-certified beds other than hospital beds, ex. personal care beds, that exist in a facility will be aged at start-up using the same criteria as Medicaid-certified beds. A weighted average age calculation will be made for these beds separate from the Medicaid-certified bed age calculation. For all facilities, the portion allocated to the classification being considered must be equal to or greater than the new bed value determined for the year of purchase in order to be considered as a renovation/improvement in accordance with other provisions of this plan. Assets purchased for use solely by the portion of the facility other than the classification being considered will not be considered.

In establishing the age of a facility for start-up, renovations/improvements are converted into new bed equivalents by dividing the renovation cost by the difference between the new bed value in the year of the renovations and the residual value of beds immediately prior to the renovation. The residual value is established by depreciating the new bed value in the year of the renovation by one percent (1%) per year for each year between the date of the renovation and the date that beds were originally constructed.

The following is an example of these calculations for a facility with 120 beds originally constructed in 1973 that underwent a $200,000 renovation in 1983.

Year of renovation	1983
Year of Original Construction	1973
Age of Beds Immediately Prior to Renovation	10 Years
1983 New Bed Value (from Table below)	$22,294
1983 Residual Value of Original Beds: New Bed Value Depreciated at 1% Per Year for 10 Years ($22,294 X .90)	$20,065
Difference Between New Bed and Residual Value	$2,229

Cost of Renovation	$200,000
New Bed Equivalent ($200,000 / $2,229)	89.7
New Bed Equivalent - Rounded	90

The weighted average age for this facility would be calculated as follows:

Construction Year	Age 1/01/94	Beds	Age X Beds
1973 (initial beds remaining)	21	30	630
1983 (new bed equivalent)	11	90	990
Total		120	1,620

Weighted Average Age = 1,620 / 120 = 13.50 years

The renovations reduced the age of the facility by 7.5 years, from 21 to 13.50. Assuming a 1994 new bed value of $26,750, depreciated at 1% per year for an age of 13.50 years, the facility's fair rental value would be $23,139 per bed ($26,750 X (100%-13.5%)), for a total facility value of $2,776,680 ($23,139 X 120) for fiscal year 1994.

The new bed value will be published each year in the Medicaid Bulletin. Following is the table of the RS Means Construction Cost Index for Jackson, MS as applied to the Mississippi fair rental system.

NEW CONSTRUCTION VALUE PER BED FOR NURSING FACILITIES USING THE RS MEANS CONSTRUCTION COST INDEX FOR JACKSON, MS

FOR CALENDAR YEAR	RS MEANS INDEX SCORE	NEW CONSTRUCTION VALUE PER BED
1963	36.00	$5,225
1964	36.70	$5,327
1965	37.40	$5,428
1966	38.97	$5,656
1967	40.53	$5,883
1968	42.10	$6,111
1969	44.70	$6,488
1970	48.50	$7,039
1971	53.30	$7,736
1972	57.90	$8,404
1973	62.30	$9,042
1974	70.30	$10,204
1975	86.00	$12,482
1976	89.70	$13,019
1977	96.50	$14,006
1978	104.60	$15,182
1979	112.60	$16,343
1980	123.90	$17,983
1981	134.80	$19,565
1982	142.80	$20,726
1983	153.60	$22,294
1984	154.10	$22,367
1985	156.40	$22,700
1986	159.60	$23,165
1987	162.80	$23,629
1988	166.40	$24,152
1989	169.20	$24,558
1990	172.60	$25,052
1991	175.50	$25,473
1992	178.50	$25,908
1993	181.20	$26,300
1994	184.30E	$26,750

3. The per bed value will be multiplied by the number of beds in the facility to estimate the facility's total current value.

4. A rental factor will be applied to the facility's total current value to estimate its annual fair rental value. The rental factor is determined by using the Treasury Bond Composite (greater than 10 years) as published in the Federal Reserve Bulletin using the average for the calendar year preceding the state fiscal year during which the rate period occurs with an imposed lower limit of seven and one-half percent (7.5%) per annum and an imposed upper limit of ten percent (10%) per annum plus a risk premium. A risk premium in the amount of two percent (2%) will be added to the index value. The rental factor is multiplied by the facility's total value, as determined in 3. above, to determine the annual fair rental value.

5. The annual fair rental value will be divided by the facility's annualized total patient days during the cost report period used to set the rate to determine the fair rental per diem payment. Annualized total patient days will be adjusted to reflect any increase or decrease in the number of certified beds by applying to the increase or decrease the occupancy rate reported on the cost

report used to set rates. Patient days for the cost report period will be adjusted, if necessary, to 80% occupancy.

6. Property taxes and property insurance will be annualized and divided by annualized total patient days from the cost report being used to set the rate to determine a per diem amount for these costs. Newly constructed facilities may submit documentation from the Tax Collector showing what taxes were paid for the rate period. These costs will be passed through as an addition to the fair rental per diem payment. Patient days will be adjusted to reflect changes in the number of certified beds and, if necessary, to 80% occupancy. Leased facilities with property taxes or insurance included in the rental payments must provide documentation of these expenses in order for them to be included in the property payment. Facilities which have an increase in their taxes by fifteen percent (15%) or more may submit a copy of their tax bill in order to have their rate adjusted.

7. The total of the fair rental per diem payment and the per diem property taxes and insurance is the per diem property payment.

8. The hold harmless provision for capital costs must be computed as described in Chapter 6 of this plan to determine the per diem hold harmless payment for each facility.

MS PROPERTY REIMBURSEMENT - FAIR RENTAL SYSTEM EXAMPLE

Per Bed Value of New Nursing Facility	$26,750 (including building, land and equipment) on January 1, 1994
Per Bed Value of Specific Facility (Based on Annual Depreciation for age of Facility)	Depreciation of new bed value at 1% per year based on year of construction or bed replacement, not to exceed 30% of the new bed value (30 years). Example: Facility constructed in 1984 Depreciated value:26,750 x .90=24,075
Facility's Total Current Value	Per Bed Value x Number of Beds Example: 120 Bed Facility Facility value=24,075 x 120=2,889,000
Rental Factor	Federal Reserve Treas.Bond Composite + Risk Premium Example: Rental Factor = 7.5% + 2.0%= 9.5%
Annual Fair Rental Value	Facility Value x Rental Factor Example: Rental Value = $2,889,000 x 9.5% = $274,455
Fair Rental Per Diem	Rental Value / Annualized Total Patient Days Example: Rental payment = $274,455/ 41,610 = $6.60

Property Insurance and Property Taxes	Pass Through Based on Annualized Reported Costs / Annualized Total Patient Days Example: Property Taxes $0.65 Prop. Insurance 0.60 Total $1.25
Per Diem Property Payment	Rental Payment + Taxes & Insurance Example: Per Diem Property Payment = $6.60 + $1.25 = $7.75
Hold Harmless Per Diem (Facility Below the Ceiling)	Example: Reported Per Diem Property Cost (Interest, Amortization, and Depreciation) = $7.11 Less: Fair rental per diem 6.60 Hold Harmless Payment $ .51
Return on Non-Property Equity Per Diem	*Average Non-Property Equity x Rental Factor / Annualized Total Patient Days Example: Avg. Non-Property Equity= $156,500 x 9.5% (rental factor)/ 41,610 = $.36 * subject to limitation of two (2) months of reported allowable costs

F. <u>Return on Equity Payment</u>

The facility's average net working capital for the reporting period maintained for necessary and proper operation of patient care activities will be multiplied by the rental factor used in the property payment to determine the return on equity payment. The return on equity payment will be divided by annualized patient days during the cost report period used to set the rate to calculate the per diem return on equity payment. The facility's net working capital will be limited to two (2) months of the facility's allowable costs, including property-related costs. In effect, net working capital is the net worth of the provider (owners' equity in the net assets as determined under the Medicaid program) **excluding** net property, plant, and equipment, and liabilities associated therewith, and those assets and liabilities which are not related to the provision of patient care. Providers that are members of chain operations must also include in their working capital a share of the equity capital of the home office.

The average of the net working capital computed for the beginning and ending of the reporting period will be used for purposes of determining the net working capital eligible for a return on investment. The following are examples of items not included in the computation for net working capital:

a. Property, plant, and equipment, excluding vehicles;
b. Debt related to property, plant, and equipment, excluding vehicles;
c. Liabilities related to property, plant, and equipment, excluding vehicles, such as accrued property taxes, accrued interest, and accrued property insurance;